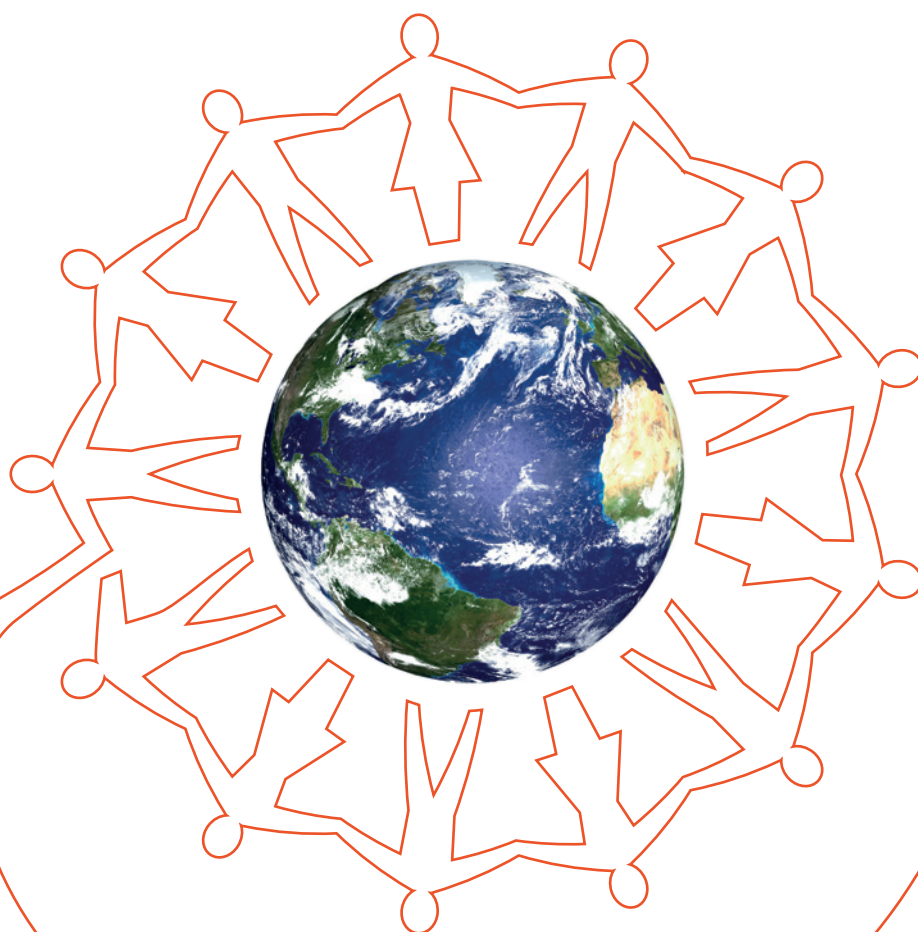


FUTURE WORLD GIVING

Unlocking the potential of global philanthropy

February 2013



Introduction

This paper introduces the key concepts in, and context for, the Future World Giving project – which comprises a series of themed international policy reports and events by the Charities Aid Foundation (CAF). The project will make recommendations for governments around the world on how they can take advantage of increasing levels of individual wealth to facilitate a new golden age for global philanthropy.

About Charities Aid Foundation (CAF)

Charities Aid Foundation (CAF) is a registered charity that promotes charitable giving and provides financial services and social finance to not-for-profit organisations. We help donors – including individuals, major donors and companies to give more effectively whilst providing financial and fundraising solutions for charities in the UK and internationally, helping good causes to manage their resources more effectively. We also have a strong track record in campaigning, policy work and research across a range of issues to ensure the best possible funding environment for charities.

About the World Giving Index 2012

The World Giving Index 2012 was the largest study into charitable behaviour across the globe, involving 146 countries in total. The report was based on interviews with over 155,000 people conducted by the polling organisation Gallup, as part of their World Poll survey. The Index is based on an average of three measures of giving behaviour – the percentage of people who donate money to charity, volunteer their time, and help a stranger, in a typical month.

This year's report results show that levels of involvement in giving – for all three of these measures – fell between 2010 and 2011, and were also down on 2007. The report shows how this mirrors global economic patterns.

Background

The trials and tribulations of the world economy in recent years have been challenging for many, and the not-for-profit sector has not been spared. The World Giving Index 2012 – which looks at philanthropic giving in 146 countries – shows that people were less generous in 2011 than in 2010, mirroring a 'double-dip' in the rate of global economic growth (Fig 1). However, there are reasons to believe that if governments around the world put the right measures in place, the future of world giving could be bright.

Despite the current economic gloom, long term forecasts for economic growth and levels of individual wealth suggest that in the next two decades millions of people will be lifted from a subsistence lifestyle to one of having a disposable income.

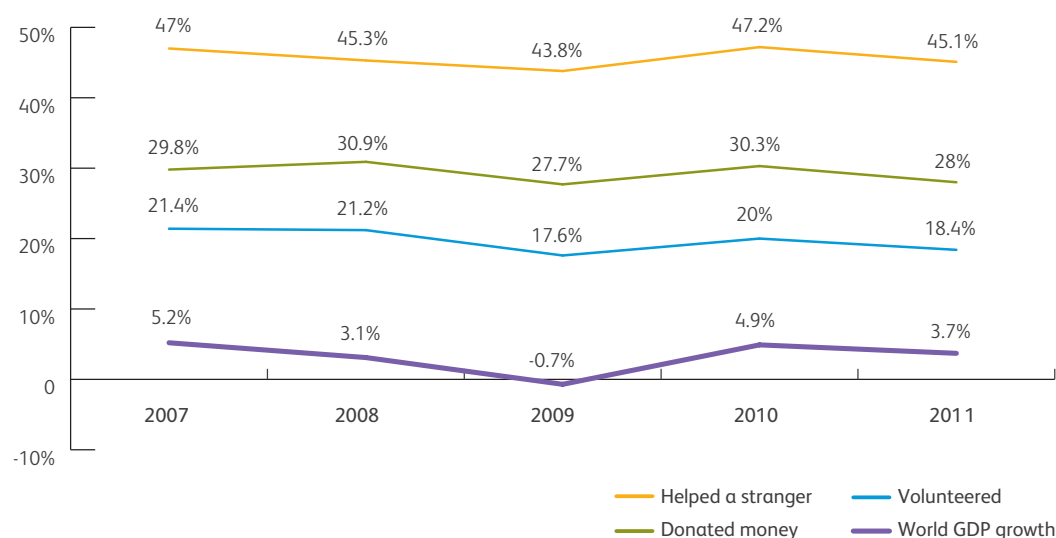
The majority of this growth will be seen in the world's emerging economies, which in many cases do not currently see high levels of charitable giving. We believe that there is enormous potential for these emerging economies to transform their societies through philanthropic action, and that governments have a key role to play in delivering the right fiscal and legislative frameworks to facilitate and encourage effective philanthropy. As the number of people with disposable incomes in the developing world overtakes that in the currently developed world, we believe a realistic goal should be for levels of giving in the developing world to follow suit. That is not to say that affluent economies cannot also do more to facilitate higher levels of philanthropy. It is in all our interests to ensure that they do.

We believe that philanthropy within a nation can be nurtured in much the same way as any other sector within an economy. Many developing countries are investing in the infrastructure necessary to maintain a boom in manufacturing industries. It is our belief that by putting the right legislative and

fiscal infrastructure in place today, emerging economies can also ensure that the growth of philanthropy is sustainable. It is equally true that developed markets must not be complacent. In the same way that Germany has been able to sustain a healthy manufacturing sector through effective policy and infrastructure development, all nations should look to emulate the continuous development of the philanthropic sector in countries like the USA.

The Future World Giving project will bring together existing research, experts and practitioners through events, meetings and reports over the next year to define what governments can do to guarantee the future of world giving.

Fig 1. Giving and growth of the world economy



Sources: World Giving Index 2012 and World Bank

The rise of the global middle classes

The number of middle-class¹ people globally is projected to grow by 165 per cent by 2030 according to OECD data, with their spending power set to grow by 161 per cent over the same period². 70 per cent of this growth is forecast to occur outside the traditional philanthropic centres of Europe and North America. We believe that if governments put policies in place now to facilitate philanthropic giving in the future, the results could be transformative. Were the world's middle classes to donate 0.4 per cent of their spending to charity³ (matching giving in the UK) they would be contributing \$224 billion to civil society per year.

To put this in perspective: \$224 billion is more than the current Gross Domestic Product (GDP) of the Republic of Ireland, the world's forty-fourth largest economy⁴. Strikingly, it is estimated that the total amount of foreign aid given over the past 50 years amounts to \$2.3 trillion⁵. Jeffrey Sachs estimates that extreme poverty⁶ could be wiped out if foreign aid reached just \$175 billion per year⁷.

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- 1 In these calculations we use the definition of middle class given by Homi Kharas of the Brookings Institute: "those households with daily expenditures between USD10 and USD100 per person in purchasing power parity terms [...]. Defined in this way, the global middle class excludes those who are considered poor in the poorest advanced countries and those who are considered rich in the richest advanced country."
 - 2 Kharas H, Working Paper No. 285, *The Emerging Middle Class in Developing Countries*, OECD Development Centre, 2010
 - 3 McKenzie, T & Pharoah, C. CGAP, Cass Business School; E. Cowley, & Smith, S. CMPO, University of Bristol *The State of Donation: Three decades of household giving to charity* Feb 2011.
 - 4 GDP is a measure of the market value of all final goods and services from a nation in a given year.
 - 5 This figure is used by William Easterly in his book *The White Man's Burden*, p.4. and is one of the most commonly quoted estimates for long term aid spending.
 - 6 In 2005 the World Bank defined extreme poverty as living on less than US\$1.25 a day.
 - 7 Sachs, J, *The End of Poverty: Economic Possibilities for Our Time*, 2005.

Though this hypothetical future is only an extrapolation of predictions and trends, it helps to highlight the importance of acting now to harness the future potential of philanthropy. With a rapidly increasing global population and increasing levels of inequality, a future in which the new found wealth of an emerging global middle class could be mobilised for philanthropic good is one that it is in all our interests to pursue.

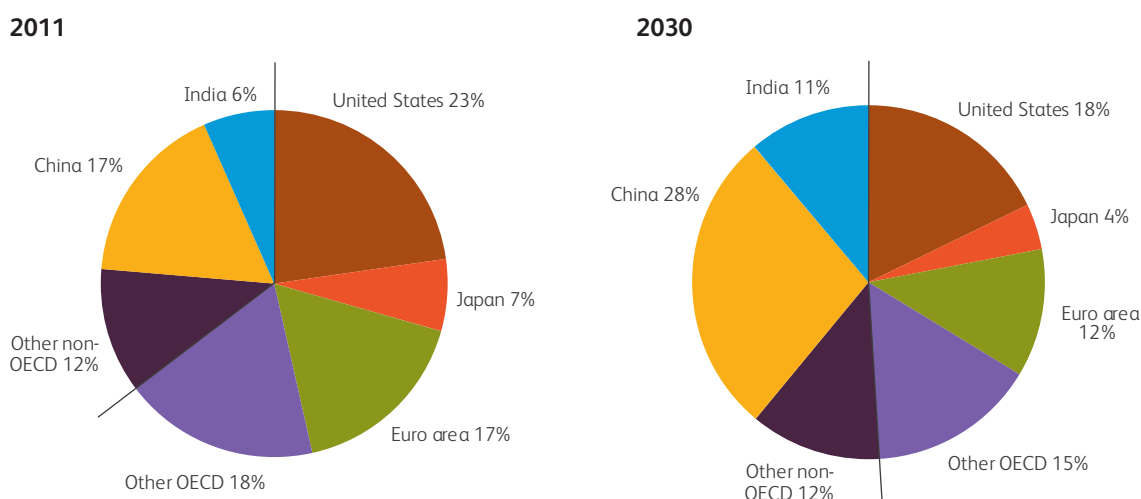
The rise of the global super-rich

The potential for future giving does not rest solely with the middle classes. An explosion in the numbers of the global super-rich, fuelled by the rapid growth of developing economies, represents an opportunity to harness huge discretionary incomes to address growing inequality. It is estimated that in 2011 there were 63,000 people in the world possessing \$100 million or more in disposable assets (centa-millionaires). This constitutes a 29 per cent increase since 2006 and is projected to rise by 37 per cent to 86,000 by 2016⁸. It is estimated that these individuals control \$39 trillion in disposable assets, with the top 100 richest billionaires adding \$240 billion to their wealth in 2012 alone. If the right actions were taken to encourage the emerging ultra-wealthy to give on the scale of Bill Gates or Warren Buffet, their giving would eclipse even the above predictions for middle-class donations.

The changing geography of wealth

The key to unlocking philanthropy on such a monumental scale will be ensuring that governments in emerging economies act now to put policies in place to remove barriers to philanthropy and incentivise and engender a culture of giving. The graphs below (Fig. 2) show that by 2030 developing countries will have a greater share of global GDP adjusted for purchasing power parity (PPP)⁹ than the 34 members of the Organisation for Economic Co-operation and Development (OECD), which broadly constitute the world's advanced economies¹⁰.

Fig. 2 Projected share of global GDP (PPP) in 2011 and 2030



Source: OECD Economic Outlook 91 long-term database

⁸ *The Wealth Report 2012*, published on behalf of Knight Frank and Citi Private Bank by Think Publishing

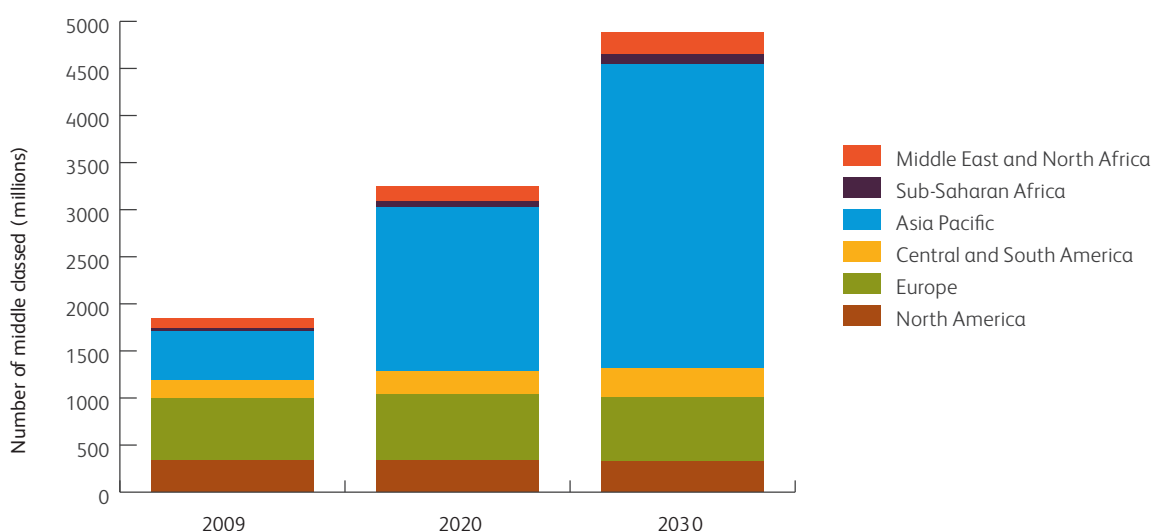
⁹ Global GDP is taken as sum of GDP for 34 OECD and 8 non-OECD G20 countries in Purchasing Power Parity at 2005 levels.

Purchasing power parity (PPP) is an economic theory and a technique used to determine the relative value of currencies, estimating the amount of adjustment needed on the exchange rate between countries in order for the exchange to be equivalent.

¹⁰ Long-term Growth Scenarios, OECD Economics Department Working Paper No. 1000, forthcoming.

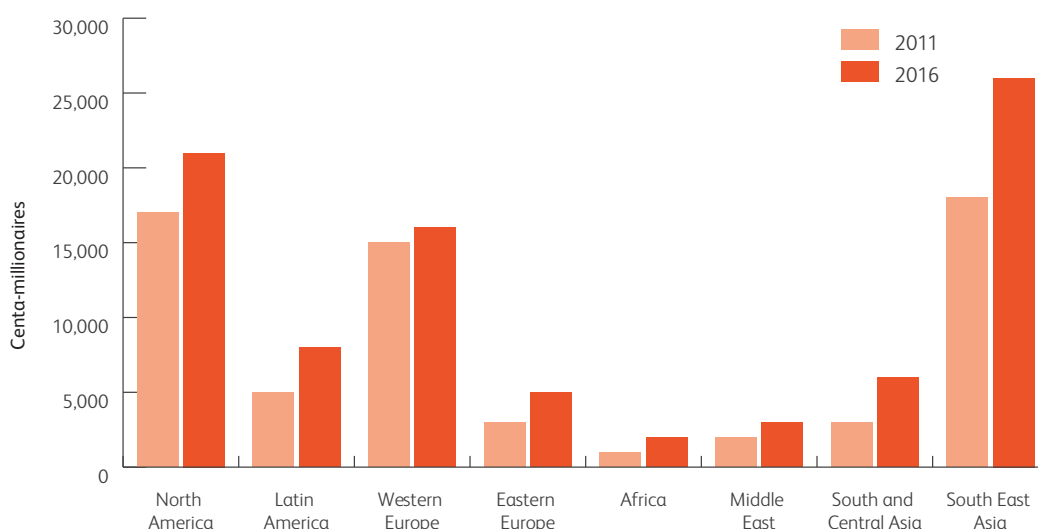
This dramatic shift in the geography of wealth will see Europe and North America's share of the global middle class fall from 54 per cent in 2009 to just 21 per cent in 2030¹¹ (Fig 3). There are already more centa-millionaires in South East Asia (18,000) than both North America (17,000) and Western Europe (14,000) and the number is expected to grow by 44 per cent to 26,000¹² by 2016 (Fig 4). As such, in any vision of a future world in which the wealth created in an era of unprecedented global economic growth is mobilised for philanthropic purposes, we must move away from seeing giving as a transaction that flows from West to East and from North to South.

Fig. 3 Size of middle class by region 2009 to 2030



Source: Kharas. H, Working Paper No. 285, The Emerging Middle Class in Developing Countries, OECD Development Centre, 2010

Fig. 4 Projected rises in the number of centa-millionaires by region



Source: The Wealth Report 2012, published on behalf of Knight Frank and Citi Private Bank by Think Publishing

The challenge of mobilising future philanthropists

The above trends show that the potential of global philanthropy is great. However, increasing individual wealth does not guarantee that people in emerging economies will give at anything like the levels seen in the world's most generous nations. Whilst having disposable income is a pre-requisite for donating money, an increase in disposable income does not necessarily lead to an increase in giving.

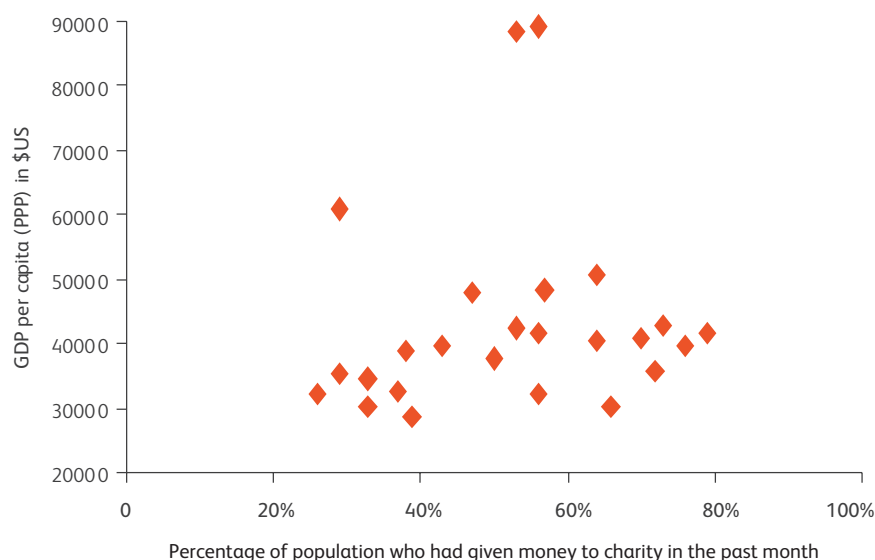
11 Kharas. H, *The Emerging Middle Class in Developing Countries*, OECD

12 *The Wealth Report 2012*, op cit.

CAF's World Giving Index 2012 revealed striking differences in levels of participation in philanthropic giving between relatively affluent countries. As demonstrated in the graphic below (Fig.5) in the 25 wealthiest countries there is no clear link between Gross Domestic Product (GDP) per capita and giving. For instance, the highest proportion of the population donating money to charity was seen in the Republic of Ireland (79 per cent), despite being ranked 15th in terms of GDP per capita and witnessing a well documented financial crisis in recent years. Luxembourg, on the other hand, ranked first in terms of GDP but came 14th in terms of prevalence of giving money to charity (56 per cent)¹³.

Fig 5. GDP (PPP) per capita and giving in 25 richest countries

There appears to be no correlation between the level of wealth and participation in giving amongst the 25 richest countries represented in World Giving Index data



So whilst we are right to be optimistic about the future of giving in emerging economies, we should not be complacent in assuming that increasing personal wealth will necessarily lead to high levels of giving. Indeed, the wide variation in attitudes to giving in affluent countries shows that governments in advanced economies should be doing more to facilitate philanthropy.

Factors affecting participation in philanthropic giving

Pinning down the factors that affect giving is difficult. Even when we can identify such factors, finding ways in which governments can influence them is often still challenging. Religion, for example, often plays an important role in encouraging giving: many religions have a form of tithing as a central tenet and in the US, according to the Giving Institute's 2012 US Giving report¹⁴, 32 per cent of charitable donations went to religious organisations.

Demographics also have an impact on giving. On the face of it there does not seem to be a significant difference between the genders, with women being 0.8 per cent more likely to give money to charity than men according to CAF's World Giving Index 2012. However, this global figure masks huge differences between individual countries. In Canada for example, 75 per cent of women gave money to charity in the last month compared to just 53 per cent of men, whereas 42 per cent of Afghani men donated money compared to just 24 per cent of women. Age, on the other hand, seems to be a much more stable predictor of philanthropy, with people giving more as they age in almost every country – a barrier that CAF is already working to overcome in the UK through its Growing Giving campaign¹⁵ which looks to encourage people to give to charity at all stages of their life.

¹³ 2011 World Bank GDP per capita data

¹⁴ *Giving USA 2012*, Giving Institute, available at www.givingusareports.org/

¹⁵ CAF's Growing Giving campaign encourages people of all ages to get involved in giving, details at: www.cafonline.org/about-us/policy-and-campaigns/generation-gap.aspx

Addressing some of the above factors would require widespread societal changes which relate to the unique contexts of individual countries. However, there are other factors affecting giving that governments can more easily influence through specific policies. Over the next year CAF's Future World Giving project will look in detail at the following three universal factors which we believe to have a clear and significant impact on philanthropic giving.

Accountability and transparency

Our first report will look at the role that trust has in increasing the confidence of philanthropists. For donors, giving is often a very personal and emotionally driven matter. There is a bewildering array of research showing what factors affect people's giving behaviours. Whilst charitable cause is paramount for most, there are many other drivers for giving. Most of these drivers could arguably be covered by one sentence: people need to trust that the money they give will be used effectively for a good cause. This explains why transparency is deemed to be so important by philanthropists. CAF's India Giving report¹⁶ for example shows that 52 per cent of Indians feel that lack of transparency hinders donations to Non-Governmental Organisations (NGOs). As such, the fact that the Edelman Trust barometer¹⁷ shows that global trust in NGOs has fallen by 3 per cent in the past year should be seen as a significant and worrying development.

Independence and sustainability

The relationship between philanthropy and the independence of civil society organisations is multi-layered. Clearly, countries where governments repress civil liberties are unlikely to sustain a mature, diverse or vibrant civil society – it is no coincidence that the top twenty countries in the World Giving Index gained seven out of seven for civil liberties in the 2012 Legatum Prosperity Index¹⁸. But even countries that guarantee civil liberties can fail to leave space for an independent voluntary and community sector to thrive.

Governments can help to foster an independent civil society by raising the profile of the important role that civil society organisations can and should play in society and by highlighting the merits of philanthropy, both to the community and the donor. But independence also relates to the capacity of organisations to be self-sufficient. Allowing charitable organisations to maintain healthy financial reserves, for example, ensures that organisations can grow sustainably.

Incentives

Most of the world's most generous countries legislate to remove administrative barriers to charitable giving, and many even offer incentives to donors, often in the form of tax breaks. The significance of these incentives for philanthropy was highlighted by a 2012 joint campaign between CAF and the National Council for Voluntary Organisations (NCVO) to reverse a proposed cap on charitable tax deductions in the UK. The Give it Back George: Drop the Charity Tax campaign estimated that such a cap would result in a £500 million (\$800 million) reduction in giving¹⁹ and successfully lobbied to change government policy.

Part of the reason that more economically developed countries see higher rates of regular giving, (aside from the obvious difference in levels of personal wealth), is that giving is more convenient. It has long been the case that access to financial services and information about philanthropy has been restricted for the less affluent. However, with rapidly improving telecommunications infrastructure in the developing world, we need to think about how best to use new technology to involve people in giving. In addition, we will be looking at the importance of providing more choice in how people can give. It may be that in an era of increasing personalisation of services, philanthropy needs to appeal to the individual.

16 Maple, T, Harrison, R, *India Giving 2012*, Charities Aid Foundation, 2012, www.cafonline.org/media-office/press-releases/2012/caf-launches-india-giving.aspx

17 *Edelman Trust Barometer 2012*, Edelman, trust.edelman.com/trust-download/global-results

18 *The 2012 Legatum Prosperity Index*, Legatum Institute, www.prosperity.com/

19 For further details see www.cafonline.org/pdf/Charity%20Tax%20Cap%20Summary%20Findings.pdf

To find out more about Charities Aid Foundation visit:
www.cafonline.org

To find out more and to get involved in the
Future World Giving project please contact:

Adam Pickering
International Policy Officer
Email: apickering@cafonline.org
Call: +44 (0) 3000 123 3229